PUBLIC DISCLOSURE

July 14, 1997

COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

HOME VALLEY BANK
12-41-0110-0000

P.O. Box 129
Cave Junction, Oregon 97523

FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
SAN FRANCISCO, CALIFORNIA 94105

NOTE: **This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of ***Home Valley Bank*** *prepared by the* ***Federal Reserve Bank of San Francisco****, the institution's supervisory agency, as of* ***July 14, 1997****. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING: The institution's overall CRA (Community Reinvestment Act) performance is rated **outstanding** based upon a review of its provision of credit to its community. Home Valley Bank has addressed the credit needs of its community through the extension of mortgage and consumer loans. The volume of lending exceeds that of most similarly situated banks in the area. Moreover, the distribution of loans to moderate-income geographies and low- and moderate-income borrowers is excellent considering demographic and economic factors.

DESCRIPTION OF INSTITUTION:

Home Valley Bank is an independent community bank established in 1980. According to its 1996 *Vision Statement and Strategic Plan*, the bank's goal is to serve the community by providing superior products and services, and by extending loans primarily for small business purposes and personal consumer use. There are full service branches of Home Valley Bank in Cave Junction and Grants Pass, and a mortgage loan production office in Grants Pass.

As of March 1997, the bank had $36,357 million in total assets[1] of which 67% were loans. The loan portfolio is diverse, consisting of $9,526 million in loans secured by 1-4 family residential property, $8,527 million in commercial loans, $3,486 million in construction loans, and $2,942 million in consumer loans.[2]

The distribution of the bank's loan products has changed since the previous examination primarily due to an increase in activity at the mortgage loan production office. The major loans products currently are mortgage and consumer loans. Since the previous examination, 431 loans were extended[3]. Of those loans, 296 (69%) were loans secured by 1-4 family residential property, 93 (21%) were consumer loans, and 42 (10%) were commercial loans. Since mortgage and consumer lending represents 90% of the loans extended since the previous examination, the CRA rating was based on an evaluation of those two products.

Although Grants Pass and Cave Junction are relatively small communities, the bank has several financial institution competitors that offer similar products and services. Those institutions are: Western Bank, a subsidiary of Washington Mutual, Community Bank of Grants Pass, Valley of the Rogue Bank, and Southern Oregon Federal Credit Union.

There are no legal or financial impediments that would prevent the bank from meeting community credit needs. At the previous examination in January 1996, Home Valley Bank's CRA performance was rated satisfactory.

DESCRIPTION OF *JOSEPHINE COUNTY:*

The assessment area is made up of the 18 census tracts; 15 in Josephine County and 3 census tracts in Douglas and Jackson Counties. The majority of the assessment area's households and owner-occupied housing units, 78% and 76%, respectively, are located in

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[1]Information based on the March 31, 1997 Report of Condition

[2]Data taken from Report of Condition Schedule RC-C as follows: commercial loans - lines 1E and 4, construction loans - line 1A, loans secured by 1-4 family residential property - lines 1C1,1C2A, and 1C2B, and consumer loans - 6A and 6B.

[3]Total number of loans extended from January 1, 1996 to April 30, 1997.

Josephine county. Since Josephine County dominates the assessment area and the demographics of Josephine County are generally reflective of the assessment area as a whole, examiners used demographic information from this county only.

For purposes of the CRA evaluation, individuals and geographies are designated as low-, moderate-, middle- or upper-income based on the median family income of the MSA. For a person or geography located outside an MSA, the statewide non-metropolitan median family income is used. Jackson County is located in Metropolitan Statistical Area (MSA) 4890; Josephine and Douglas counties are located outside an MSA. The median family income for MSA 4890 is $36,200, and the statewide non-metropolitan median family income is $34,600. The following chart depicts the income distribution of households and census tracts in the assessment area.

	LOW	MODERATE	MIDDLE	UPPER
HOUSEHOLDS	28%	18%	19%	35%
CENSUS TRACTS	O	33%	67%	0

Examiners reviewed demographic information about the assessment area in order to assess lending opportunities. One factor that has had a positive impact on loan demand is population growth. The population of the assessment area, according to the 1990 census, is 81,738, and the population continues to grow at a steady pace primarily as a result of in-migration. The population of Cave Junction and Grants Pass increased by approximately 12% from 1990 to 1995; this surpasses the state population growth rate of 10% during the same period. The elderly population is large when compared to other areas of the state. In 1990, 20% of the population of the assessment area was over the age of 65 compared to 13% for the state. For the period 1990 to 1995[4], the number of older residents increased at twice the rate of the general population with the number of residents over the age of 70 increasing by 19% in both Jackson and Josephine Counties. In Josephine County, the number of young adults and middle age residents is also growing rapidly. The age group of 20-24 increased by 42%, and the age group 49-54 grew by 22%.

Population growth has also resulted in economic factors which have had a negative effect on the loan demand. Those factors are: higher unemployment, high percentage of residents on fixed income, and lack of affordable housing.

The unemployment rate for the assessment area in 1990 was 9.6%, which is 55% higher than the state unemployment rate of 6.2%. As would be expected, the percentage of families living below the poverty level is also higher than the state; 13.2% for the assessment area compared to 8.7% for the state. Because of the high unemployment rate and the large number of elderly residents, a substantial percentage of the population lives on a fixed income. In 1993, transfer payments (social security income, unemployment

[4]Source: State of Oregon Employment Department Regional Economic Profile

insurance, retirement income, and government assistance payments) accounted for 28% of the total income for Josephine County. Transfer payments accounted for only 17% of total income for the state.

The influx of residents from other states has also resulted in a decrease in affordable housing. According to information obtained through interviews with community representatives, the migration of people from California has driven housing prices up. New housing stock is generally priced between $150 - $200 thousand. The following chart compares 1990[5] and 1996[6] housing values.

owner-occupied housing values	**<25K**	**25-40K**	**41-60K**	**61-100K**	**101-150K**	**>150K**
1996 % of housing stock	.4%	2.0%	10.7%	36.4%	30.9%	19.6%
1990 % of housing stock	1.3%	6.3%	21.2%	46%	16%	9.2%

In 1990, 28.8% of the housing stock was valued at $60 thousand or less; by 1996 that percentage had dropped to only 13%. Conversely, the percentage of higher priced homes doubled, (valued at over $100 thousand), increasing from 25% in 1990 to 50% in 1996.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO:

The average loan-to-deposit ratio for Home Valley Bank demonstrates more than reasonable responsiveness to loan demand. The bank's average loan-to-deposit ratio for five quarters, (3/96 to 3/97), is 75%. The average loan-to-deposit- ratio for similarly situated community banks is Oregon in 73%[7] and the national peer loan-to-deposit ratio is 66%.

[5]Source: census data

[6]Source: Josephine County's assessor's office

[7]For comparative purposes, examiners selected six community banks in Oregon with assets ranging from $27 million to $61 million.

Home Valley Bank not only extends funds that are generated from deposits, but has improved its ability to respond to credit needs by selling loans on the secondary market. During the period January 1, 1996 to April 30, 1997, the bank sold mortgage loans totalling $41.5 million.

Home Valley Bank's average loan-to-deposit ratio has increased by 18% since 1995, (75%

compared to 63.58%). This increase is primarily attributable to a change in the demographics of Josephine County. As mentioned in the Description of the Assessment Area, a large percentage of the population is elderly; however, recently there has been an increase in the number of younger people (20-24 and 49-54), migrating to the community. Typically, the demand for consumer and mortgage loan products is greater for these age groups when compared to elderly people.

A comparison of loan and deposit growth was also made which indicates that loans and deposits generally moved in tandem. Both loans and deposits showed an upward trend for a five-quarter period (March 1996 to March 1997), with the exception of the fourth quarter 1996 (12/96) when both figures declined by approximately 3%.

Considering the lending opportunities in the assessment area, the bank's capacity to lend, and the dollar volume of loans sold, the bank's loan-to-deposit ratio exceeds standards for satisfactory performance.

<u>LENDING IN ASSESSMENT AREA</u>:

Based on an analysis of a sample of consumer and mortgage loans, examiners determined that a majority of loans are extended within the assessment area.

For purposes of this analysis, 93 consumer loans totalling $460,000, and 294 mortgage loans totalling $18.5 million, were reviewed.

As demonstrated by the following graph, there is a marked difference in lending patterns for consumer loans and mortgage loans. For the 93 consumer loans, $439,000 (95%) were extended within the assessment area. For the 223 mortgage loans, $12 million (66%) were extended within the assessment area.

In terms of the overall number of consumer and real estate loans, 313 (66%) were extended within the assessment area, demonstrating that the bank has addressed credit needs of its community and meets standards for satisfactory performance.

<u>LENDING BY BORROWER INCOME</u>:

Examiners evaluated the distribution of borrowers and found that the bank has an excellent record of extending consumer loans to individuals of all income groups. Additionally, considering housing affordability, extensions of mortgage loans to low- and moderate-income borrowers far exceed standards for satisfactory performance.

The analysis was based on a review of 89 consumer loans totalling $438,722 and 221 mortgage loans totalling $12,058,000. Because the dollar amount of loans to low- and moderate-income borrowers is generally lower than loans to middle- and upper-income borrowers, greater weight was placed on the number of loans extended by income category.

Examiners compared consumer loans extended to low-, moderate-, middle- and upper-income individuals, to the percentage of households in each income category in the assessment area. According to 1990 census information, 27% of households are low-income, 18% are moderate-income, 19% are middle-income, and 35% are upper- income. A review of the bank's consumer lending shows that the majority of loans were extended to low- and moderate-income borrowers. The following graph shows the distribution of loans for each income group.

When evaluating the distribution of mortgage loans by borrower income, examiners considered the availability of affordable housing. As mentioned in the Description of the Assessment Area, the percentage of low priced housing decreased significantly from 1990 to 1996. In 1990, 7.6% of the housing stock in the assessment area was valued below $40,000, and 28.8% was valued below $60,000. By 1996 these percentages had dropped to 2.4% and 13.1% respectively. Using standard FNMA underwriting guidelines[8],examiners estimated housing affordability using the following calculation:

> Home Price (i.e., maximum amount in range: $40,000 - $60,000, etc.) x down payment (assume 10%) = amount of loan. Amount of loan x interest rate (assume 8%)) 12 = monthly Mortgage Payment; add taxes (1.6% of appraised value) 12) and monthly hazard insurance).0035% of loan amount) 12) = Principal Interest Taxes Insurance (PITI). From the calculation, it is concluded that:
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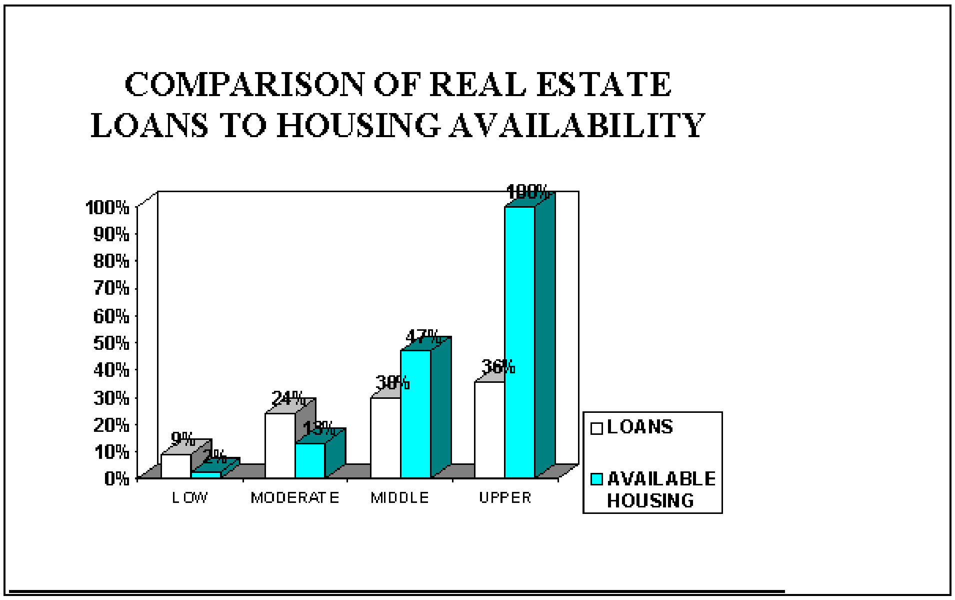
> low-income borrowers can afford housing units valued below $40,000 (2.4% of the housing stock);



> moderate- and middle-income borrowers can afford housing units valued below $60,000 (13.1% of the housing stock);
>
> upper-income borrowers can *theoretically* afford all available housing.

To evaluate the borrower distribution of mortgage loans, examiners compared the percentage of mortgage loans to individuals in each income category to the availability of housing. The comparison shows that, although only 2.4% of housing stock is available to low-income borrowers, 9% of mortgage loans sampled were extended to low-income borrowers.

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[8] According to FNMA underwriting guidelines, the ratio of housing expense to gross income should not exceed 28%.

The bank's lending patterns show exceptional penetration of all income groups. The bank has utilized innovative secondary market loan products to address the credit needs of its community, particularly low- and moderate-income borrowers.

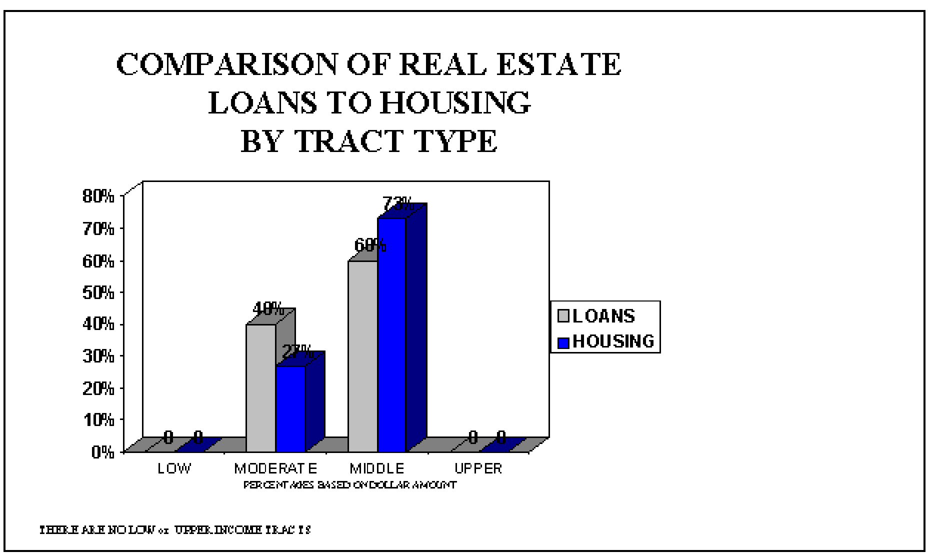
<u>GEOGRAPHIC DISTRIBUTION OF LOANS</u>:

The analysis of consumer and mortgage lending shows excellent dispersion throughout the assessment area, especially in moderate-income areas.

Conclusions with respect to geographic distribution were based on a sample of 90 consumer loans totalling $439,000, and 223 mortgage loans totalling $12,128,000.

To evaluate the distribution of consumer loans, the percentage of loans extended in each income geography was compared to the proportion of households in those geographies. As depicted in the following graph, over half of the consumer loans were extended to persons residing in moderate-income areas.

The distribution of mortgage loans was compared to the proportion of single-family housing units in each income geography. There are 23,902 single-family houses and 8,402 mobile homes, or a total of 32,304 single family housing units in the assessment area. Of these housing units, 27% are located in moderate-income tracts and 73% are in middle-income tracts. The following chart shows that the percentage of mortgage loans extended in moderate-income tracts exceeds the percentage of single-family housing units in those areas.



The distribution of consumer and mortgage loans shows that the bank has played an affirmative role in meeting the credit needs of the residents of moderate-income census tracts.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

Home Valley Bank is in compliance with the anti-discriminatory provisions of the Regulation B (Equal Credit Opportunity Act) and the Fair Housing Act. Although there were violations of the technical provisions of Regulation B, they were few in number and did not result in any applicant being disparately treated on a prohibited basis. Consequently, those violations did not have a negative affect on the assessment of the bank's CRA performance.